Statement of

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Introduction

My name is Joe Plesha and on behalf of Trident Seafoods Corporation I want to thank you for the opportunity to testify on S. 637, the IFQ Act of 2001.

Trident was founded in 1973 by its president, Chuck Bundrant. Trident has never declared a dividend for its shareholders, instead reinvesting its earnings back in the seafood industry. Most of Trident's investments have been in seafood processing and we now have ten shorebased processing plants that provide markets for fishing vessels. Our shorebased plants are located in the states of Oregon, Washington and Alaska. In addition to these shorebased facilities, Trident owns floating processing vessels, catcher/processing vessels, fishing vessels and secondary processing facilities.

The subcommittee has heard about the potential benefits of Individual Fishing Quota ("IFQ") fishery management. I would like to talk about the enormous impact that adoption of an IFQ program has on the value of fishing vessels and primary processing plants. If IFQ programs are authorized by Congress, I respectfully request the Magnuson-Stevens Act be amended to require that owners of processing plants be allocated privileges in the IFQ fishery on an absolutely equal basis with vessel owners.

The reasons for allocating privileges in an IFQ fishery to those with processing history are the same as the reasons for allocating privileges in an IFQ fishery to vessels with catch history.

Under open access there have been investments in both the harvesting and primary processing of fishery resources. In a typical open access fishery, both sectors have more capacity than is necessary to efficiently harvest and process the resource (otherwise the fishery would not be considered "overcapitalized" and there would be no need for the fishery to be rationalized). When the fishery is rationalized through an IFQ system, that "excess" capacity in vessels and processing plants becomes unnecessary. The IFQ system therefore results in de-capitalization of both the harvesting and processing sectors.

For example, in talking with crab fishing vessel owners that operate in Alaska, they tell me that if the Bering Sea opilio fishery were rationalized, there would be a need for less than fifty fishing vessels (not the 250 or more that currently harvest crab) and likewise, only one-fifth of the current processing power that is in the Bering Sea would be required.

Rationalizing an open access fishery through an IFQ system has dramatic impacts on the value of existing investments made in both fishing vessels and primary processing plants.

Gardner Brown, a professor of economics at the University of Washington noted that processors "can lose with the introduction of an IFQ system. No longer is there a race to harvest a fishery-wide quota. Harvest rates fall which creates excess demand for fish by processors."[1]

In the North Pacific off Alaska, we have learned from the Community Development Quota ("CDQ") program[2] and the Halibut/Sablefish IFQ program that most of the value of existing investments in both fishing

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[1] There have been a number of articles published in academic journals discussing the economic impact of IFQ programs on owners of vessels and primary processing plants. Among these articles are, G. Brown, "Renewable Natural Resource Management and Use without Markets", Journal of Economic Literature, Vol. XXXVIII (Dec. 2000) pp. 875-914 and S. Matulich, R. Mittehammer and C. Reberte, "Toward a More Complete Model of Individual Transferable Fishing Quotas; Implications of Incorporating the Processing Sector", Journal of Environmental Economics and Management, Vol. 31 (1996) pp.112-128.

[2] The Community Development Quota program is an IFQ system where the rights to the fishery were allocated to coastal communities in Alaska.

vessels and processing plants is transferred to quota share holders when an IFQ system is implemented.

Under an IFQ program, vessels will harvest fish for a price that covers only their variable costs because there are far more boats than are necessary to harvest the rationalized fishery. For example, when the CDQ program was implemented for pollock off Alaska, Trident contracted with the Aleutian/Pribilof Island Community Development Association to use CDQ quota. Fishing vessels that had received over ten cents a pound for their pollock harvest during the open access fishery willingly fished the CDQ pollock quota for four and a half cents per pound, a price which covered only the fishing vessels' variable costs (i.e., the cost of fuel, groceries and crew). The vessel owner made no return on the capital invested in the vessel and thus the value of the vessel itself was transferred to the owners of the quota.

Existing investments in primary processing plants are likewise transferred to quota share holders when an open access fishery is rationalized through IFQs. Like vessels, processing plants will process fish at a price that only covers their variable costs because there is more processing capacity than is necessary to process the rationalized fishery. When Trident bid on the right to use CDQ quota, for example, we paid the amount for the quota that we thought would allow for us to cover only our variable cost of production. The over one hundred million dollar capital investment that Trident had made in our plant was, in essence, transferred to quota share holders.

The fishery resources in the United States' Exclusive Economic Zone belong to the public. The only reason for allocating quota shares under an IFQ system to vessel owners (instead of the government auctioning quota shares so that the general public receives the economic benefit from the resource it owns) is to compensate those vessel owners for the devaluation of their existing investments caused by adoption of the IFQ system. The exact same rationale applies to primary processors.

The reason processors fear IFQs is that if a fishery is rationalized and they do not receive privileges in the fishery, the value of their investments will be taken away from them.

The movement from an open access to an IFQ fishery should not take the value of existing investments in processing plants and transfer that value to vessel-owning quota share holders. Nor should rationalization allow for only vessel owners to receive all of the economic benefits from the fishery. In the Pacific Northwest and Alaska processors that have invested over a billion dollars in these fisheries fear the possibility of "harvester only" IFQ systems because such a system will take the value of their investments away from them.

Fishing vessel owners who want to exclude processors under an IFQ system merely want to change the existing bargaining position between harvesters and processors with the adoption of the IFQ program. But fishing vessel owners who support "harvester only" IFQ systems would be strongly opposed to an IFQ system that required all quota shares be auctioned by the federal government to the highest bidder or some other IFQ system under which they would not receive IFQ privileges.

Except for the American Fisheries Act, IFQ-style fishery management plans in the United States have allocated privileges exclusively to vessel owners and, in the case of the North Pacific's CDQ program, coastal communities. Those who have invested in seafood processing are at serious risk unless Congress adopts IFQ guidelines that require owners of harvesting vessels and primary processing facilities to be treated identically in the adoption of any future IFQ system.

Harvesters and processors should both receive economic benefits from an IFQ fishery.

There are at least three methods to maintain the existing balance between the harvesters and processors under an IFQ fishery. One way would be to simply allocate IFQ quota share privileges 50/50 between harvesters and processors; a second way would be to create what has been called a "two-pie" harvester/processor quota system; and a third way would be to require American Fishery Act-style cooperatives that include both harvesters and processors.

The "two-pie" harvester/processor quota system would allow vessels owners to receive allocations of their catch history through an IFQ quota system. Similarly, processors would receive allocations of their processing history through a processor quota system. All fish that are harvested must be caught by an entity holding the requisite amount of harvesting quota. All fish that are landed must be purchased by an entity holding the requisite amount of processing quota. The quotas would be theoretically transferable. If fishing vessel owner “Arctic Fishing Corp.” is so much more efficient that it can afford to pay vessel owner “Bering Fishing Corp.” more for “Bering Fishing Corp.’s” quota than it makes harvesting its own quota, then “Bering Fishing Corp.” is likely to sell or lease its quota to “Arctic Fishing Corporation’s” more efficient operation. The same is true for processors. IFQ systems have been called an “industry-funded buyback program.” Vessel owners who are perhaps less efficient can sell their quota and be compensated for voluntarily leaving the fishery. The processing sector, like the harvesting sector, will consolidate when an open access fishery is rationalized. Under a “two-pie” system, however, owners of processing capacity that leave the industry will receive compensation for leaving through the sale of processing quota.

The American Fisheries Act was the first attempt in a federally managed fishery to include both harvesters and shorebased processors in the benefits of a rationalized fishery. The Act accomplished this goal by allowing vessels to form cooperatives among themselves and have their historical catch allocated to the cooperatives similar to allocations of quota shares to vessels in an IFQ program. If a vessel owner decides to join a cooperative, it must agree to deliver its harvest of pollock to the processor to whom it has historically delivered its catch. In addition, there is a limited entry system placed on both the number of pollock harvesting vessels and pollock processing plants. The Act has been remarkably successful in allowing both harvesters and processors to benefit from the rationalized pollock fishery.

Conclusion

Trident has invested hundreds of millions of dollars into seafood processing facilities that operate in open access fisheries. Before authorizing adoption of any future IFQ programs, we urge the Subcommittee to provide statutory guidelines that require owners of processing facilities and harvesting vessels be treated identically in the allocation of privileges under any future IFQ system.